

## EXECUTIVE SUMMARY

The outlook for the state's economy has been scaled back somewhat compared to the previous forecast, with the major differences occurring this year and next. This change results from new historical data that suggest the previous forecast was a bit optimistic. Last July it was predicted Idaho nonfarm employment would grow to 566,695 by the second quarter of 2002. However, the new historical data show it was 560,285—a difference of nearly 6,700 jobs. The revision noted above has lowered the starting point for the Idaho nonfarm employment forecast. However, this is not the only factor affecting its outlook. This measure will feel the pinch of the slower growing U.S. economy. The net result is Idaho nonfarm employment is expected to be down by about 5,200 in 2003 compared to the July 2002 forecast. In 2004 and 2005, the growth pace for Idaho nonfarm employment should accelerate slightly, and this should shrink the job gap between the October and July forecasts. Interestingly, Idaho personal income was understated in the July 2002 forecast. According to recent estimates published by the U.S. Department of Commerce in October 2002, Idaho nominal personal income in the first quarter of 2002 was \$33.6 billion, which is about \$0.4 billion dollars more than had been previously reported. Idaho nominal personal income is expected to rise 5.1% in both 2003 and 2004 and 5.5% in 2005. Previously, this measure was projected to increase 5.4% in 2003 and 5.9% in 2004 and 2005. As is the case with Idaho nonfarm employment, this closes the gap between the Idaho nominal personal income forecasts. However, there is difference worth noting. The nonfarm employment converges from below the previous forecast while the personal income closes in from above the previous projection.

The economy is not expected to slip into another recession in the near future. Although the slow growth has been disappointing, it has been growth nonetheless. The economy should continue moving forward over the forecast period, with real GDP advancing 2.4% in 2002, 3.0% in 2003, 4.0% in 2004, and 3.3% in 2005. Three sectors contributed to the mildness of the recession and have kept the economy from slipping into another one. They are light vehicle sales, housing, and federal government spending. Unlike in recessions past, American consumers kept spending, and this kept the economy from tanking. Debt-service payments are claiming a record share of disposable income despite the drop in interest rates. As a result, consumer spending should become more income constrained. This means spending should grow at about the same pace as disposable income. Fortunately, incomes are expected to rise faster than prices, so consumers should continue to support the recovery. Unfortunately, the housing sector is starting to show signs of weakness after going beyond the call of duty earlier this year. Starts are slipping, as are sales of existing homes. Rising interest rates, along with the uncertain job picture and weak financial markets, present a less-than-ideal culture for future housing expansion. Indeed, U.S. housing starts are expected to decline in 2003, but from a very high level. It is also expected to recover in 2004. The federal government has done its share by spending at an accelerated pace. Through most of the second half of the 1990s, real federal government spending actually declined annually. However, spending is forecast to ramp up in response to the terrorist attacks. One of the questions tied to federal government spending is what would be the economic impacts of a war with Iraq. Interestingly, the most severe impact is likely from the uncertainty of whether the U.S. goes to war. In fact, the economy is already feeling these impacts. For example, current oil prices already reflect a \$3-\$5 per barrel "war premium." The irony is the uncertainty and attendant market jitters will dissipate as soon as the war begins. This was the pattern during the Gulf War and the war in Afghanistan. Much like the earlier conflicts, as soon as the United States makes a decisive move, oil prices are likely to fall, and both confidence and stock prices are likely to rise.

# IDAHO ECONOMIC FORECAST

## EXECUTIVE SUMMARY

OCTOBER 2002

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>GDP (BILLIONS)</b>										
Current \$	7,813	8,318	8,782	9,274	9,825	10,082	10,459	11,050	11,815	12,534
% Ch	5.6%	6.5%	5.6%	5.6%	5.9%	2.6%	3.7%	5.7%	6.9%	6.1%
1996 Chain-Weighted	7,813	8,159	8,509	8,859	9,191	9,215	9,431	9,710	10,100	10,429
% Ch	3.6%	4.4%	4.3%	4.1%	3.8%	0.3%	2.4%	3.0%	4.0%	3.3%
<b>PERSONAL INCOME - CURR \$</b>										
Idaho (Millions)	24,174	25,227	27,066	28,931	31,314	32,525	34,009	35,746	37,559	39,624
% Ch	5.7%	4.4%	7.3%	6.9%	8.2%	3.9%	4.6%	5.1%	5.1%	5.5%
Idaho Nonfarm (Millions)	23,298	24,557	26,149	27,901	30,519	31,562	32,902	34,556	36,323	38,403
% Ch	5.6%	5.4%	6.5%	6.7%	9.4%	3.4%	4.2%	5.0%	5.1%	5.7%
U.S. (Billions)	6,547	6,937	7,426	7,786	8,407	8,685	8,960	9,410	9,986	10,593
% Ch	5.6%	6.0%	7.0%	4.9%	8.0%	3.3%	3.2%	5.0%	6.1%	6.1%
<b>PERSONAL INCOME - 1996 \$</b>										
Idaho (Millions)	24,172	24,745	26,268	27,622	29,158	29,686	30,574	31,313	32,020	32,900
% Ch	3.5%	2.4%	6.2%	5.2%	5.6%	1.8%	3.0%	2.4%	2.3%	2.7%
Idaho Nonfarm (Millions)	23,297	24,088	25,379	26,639	28,418	28,807	29,579	30,271	30,967	31,886
% Ch	3.3%	3.4%	5.4%	5.0%	6.7%	1.4%	2.7%	2.3%	2.3%	3.0%
U.S. (Billions)	6,547	6,805	7,208	7,435	7,828	7,927	8,055	8,243	8,513	8,796
% Ch	3.4%	3.9%	5.9%	3.2%	5.3%	1.3%	1.6%	2.3%	3.3%	3.3%
<b>HOUSING STARTS</b>										
Idaho	9,220	8,865	10,117	10,350	11,536	12,269	11,725	11,038	11,248	10,961
% Ch	-1.5%	-3.9%	14.1%	2.3%	11.5%	6.4%	-4.4%	-5.9%	1.9%	-2.6%
U.S. (Millions)	1,469	1,475	1,621	1,647	1,573	1,603	1,637	1,572	1,711	1,704
% Ch	7.9%	0.4%	9.9%	1.6%	-4.5%	1.9%	2.1%	-3.9%	8.8%	-0.4%
<b>TOTAL NONFARM EMPLOYMENT</b>										
Idaho (Thousands)	492.6	508.7	521.5	539.1	559.2	568.3	562.8	571.2	583.4	597.1
% Ch	3.2%	3.3%	2.5%	3.4%	3.7%	1.6%	-1.0%	1.5%	2.1%	2.4%
U.S. (Millions)	119.6	122.7	125.9	128.9	131.7	131.9	130.8	132.6	136.0	138.4
% Ch	2.0%	2.6%	2.6%	2.4%	2.2%	0.2%	-0.8%	1.4%	2.6%	1.7%
<b>SELECTED INTEREST RATES</b>										
Federal Funds	5.3%	5.5%	5.4%	5.0%	6.2%	3.9%	1.7%	2.1%	3.4%	4.2%
Bank Prime	8.3%	8.4%	8.4%	8.0%	9.2%	6.9%	4.8%	5.1%	6.4%	7.2%
Existing Home Mortgage	7.7%	7.7%	7.1%	7.3%	8.0%	7.0%	6.6%	6.4%	6.2%	7.0%
<b>INFLATION</b>										
GDP Price Deflator	1.9%	1.9%	1.2%	1.4%	2.1%	2.4%	1.3%	2.6%	2.8%	2.7%
Personal Cons Deflator	2.1%	1.9%	1.1%	1.6%	2.5%	2.0%	1.5%	2.6%	2.7%	2.7%
Consumer Price Index	2.9%	2.3%	1.5%	2.2%	3.4%	2.8%	1.7%	2.9%	2.9%	2.9%

**National Variables Forecast by DRI\*WEFA**  
**Forecast Begins the THIRD Quarter of 2002**

# IDAHO ECONOMIC FORECAST

## EXECUTIVE SUMMARY

OCTOBER 2002

	2002				2003				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>GDP (BILLIONS)</b>												
Current \$	10,313	10,377	10,496	10,650	10,811	10,946	11,120	11,322	11,540	11,721	11,904	12,095
% Ch	6.5%	2.5%	4.7%	6.0%	6.2%	5.1%	6.5%	7.5%	7.9%	6.4%	6.4%	6.6%
1996 Chain-Weighted	9,363	9,392	9,455	9,515	9,588	9,650	9,744	9,857	9,972	10,057	10,139	10,230
% Ch	5.0%	1.3%	2.7%	2.6%	3.1%	2.6%	3.9%	4.8%	4.7%	3.5%	3.3%	3.7%
<b>PERSONAL INCOME - CURR \$</b>												
Idaho (Millions)	33,502	33,566	34,171	34,795	35,136	35,499	35,992	36,358	36,799	37,309	37,843	38,284
% Ch	10.4%	0.8%	7.4%	7.5%	4.0%	4.2%	5.7%	4.1%	4.9%	5.7%	5.8%	4.7%
Idaho Nonfarm (Millions)	32,227	32,745	33,152	33,482	33,970	34,328	34,745	35,183	35,653	36,084	36,526	37,031
% Ch	6.6%	6.6%	5.1%	4.0%	6.0%	4.3%	4.9%	5.1%	5.4%	4.9%	5.0%	5.6%
U.S. (Billions)	8,803	8,914	9,010	9,111	9,251	9,341	9,457	9,592	9,759	9,910	10,059	10,215
% Ch	4.8%	5.1%	4.4%	4.6%	6.3%	4.0%	5.1%	5.8%	7.2%	6.3%	6.1%	6.3%
<b>PERSONAL INCOME - 1996 \$</b>												
Idaho (Millions)	30,418	30,270	30,655	30,953	31,075	31,205	31,432	31,541	31,707	31,927	32,153	32,294
% Ch	9.2%	-1.9%	5.2%	4.0%	1.6%	1.7%	2.9%	1.4%	2.1%	2.8%	2.9%	1.8%
Idaho Nonfarm (Millions)	29,260	29,530	29,741	29,786	30,044	30,175	30,342	30,522	30,720	30,878	31,035	31,236
% Ch	5.4%	3.7%	2.9%	0.6%	3.5%	1.8%	2.2%	2.4%	2.6%	2.1%	2.0%	2.6%
U.S. (Billions)	7,993	8,038	8,083	8,105	8,182	8,211	8,259	8,321	8,409	8,480	8,547	8,616
% Ch	3.7%	2.3%	2.2%	1.1%	3.8%	1.5%	2.3%	3.0%	4.3%	3.4%	3.2%	3.3%
<b>HOUSING STARTS</b>												
Idaho	11,534	11,950	11,852	11,562	11,276	11,049	10,924	10,905	11,174	11,247	11,272	11,300
% Ch	2.3%	15.2%	-3.3%	-9.4%	-9.6%	-7.8%	-4.5%	-0.7%	10.2%	2.7%	0.9%	1.0%
U.S. (Millions)	1,725	1,667	1,597	1,558	1,527	1,552	1,584	1,627	1,680	1,719	1,720	1,726
% Ch	44.9%	-12.9%	-15.7%	-9.4%	-7.7%	6.7%	8.6%	11.1%	13.9%	9.5%	0.4%	1.3%
<b>TOTAL NONFARM EMPLOYMENT</b>												
Idaho (Thousands)	564.0	560.3	562.7	564.4	566.4	569.3	572.9	576.2	579.1	581.9	584.7	587.7
% Ch	-1.4%	-2.6%	1.7%	1.2%	1.5%	2.0%	2.5%	2.4%	2.0%	1.9%	1.9%	2.0%
U.S. (Millions)	130.8	130.7	130.8	131.0	131.5	132.0	132.9	134.0	134.9	135.7	136.4	137.2
% Ch	-1.1%	-0.2%	0.4%	0.3%	1.7%	1.6%	2.6%	3.3%	2.8%	2.3%	2.3%	2.2%
<b>SELECTED INTEREST RATES</b>												
Federal Funds	1.7%	1.8%	1.8%	1.8%	1.8%	1.8%	2.2%	2.6%	3.0%	3.4%	3.5%	3.8%
Bank Prime	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	5.2%	5.6%	6.0%	6.4%	6.5%	6.8%
Existing Home Mortgage	6.9%	6.8%	6.4%	6.4%	6.4%	6.4%	6.4%	6.5%	6.1%	6.2%	6.3%	6.3%
<b>INFLATION</b>												
GDP Price Deflator	1.3%	1.2%	1.9%	3.4%	3.0%	2.4%	2.5%	2.6%	3.1%	2.9%	3.0%	2.8%
Personal Cons Deflator	1.1%	2.7%	2.1%	3.4%	2.4%	2.5%	2.7%	2.7%	2.8%	2.8%	2.9%	2.9%
Consumer Price Index	1.4%	3.4%	2.2%	3.9%	2.6%	2.6%	2.8%	2.8%	2.8%	3.0%	3.1%	3.1%

**National Variables Forecast by DRI\*WEFA**  
**Forecast Begins the THIRD Quarter of 2002**